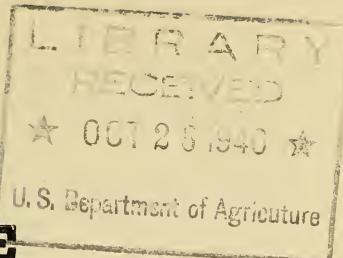


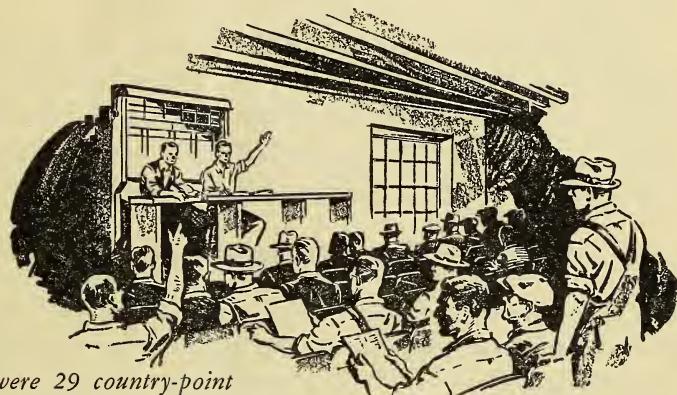
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How **COOPERATIVE** **AUCTIONS** *fit the* *Poultrymen's Needs*



In 1940 there were 29 country-point auctions in operation, all but 2 of them producer-owned.

WHETHER a farmer buys a bag of feed, a tractor, or a piece of clothing, he buys it for a specific need. He wants it to be formulated, designed, or tailored for its particular use. Similarly, a cooperative marketing association should be "tailor-made" to fit its purpose and locality. A pattern which has proved entirely satisfactory in some areas or under certain circumstances may be entirely wrong for others.

In many instances this has been true in respect to cooperative associations organized to market eggs and poultry. A number of ill-advised, large-scale cooperative egg and poultry associations failed in the early 1920's, and there followed a period when discouragement and disappointment slowed down the development of cooperative marketing in this field.

At that time the outlook for cooperative marketing of poultry products did not look bright in comparison with the success attained with

many other farm products. This was true especially in the Northeastern States where some of the failures had occurred and where there seemed to be some natural obstacles to success.

Recent study and experience, however, has shown that the chief cause for the earlier lack of success in the Midwest, and in the Northeast in particular, was in failure to "tailor" the associations to fit local conditions. In too many instances the large pool type of association was copied without any important alterations or adjustments. This type of association had been developed in the Pacific coast and Western States through years of experience, trial and error, and evolution. It was adapted to the area in which it was developed, but it resulted in some disastrous ill-fits when transplanted farther east.

The Northeastern folks refused, however, to remain discouraged. Instead they set about to devise some new cooperative marketing machinery which would work in their locality, next door to the world's largest city. The result was the New Jersey plan—the selling of eggs and poultry at auction near the point of production.

Cooperative Auctions Apparently "Fill the Bill"

That cooperative auctions filled the bill to a considerable extent is indicated by their rapid growth and their present importance. The first cooperative egg auction started to operate at Toms River, N. J., on June 2, 1930. In less than $3\frac{1}{2}$ years there were 5 auctions in operation in the State. At present, practically the entire State is served by these 5 auctions. In the meantime, the news of the success of the New Jersey



Auction selling appeals particularly to buyers who sell directly to the ultimate consumer.



Cooperative auctions tend toward a minimum of services, leaving the producers themselves to perform as many of the marketing functions as possible.

auctions spread to other States. Similar auction associations were organized in other Northeastern and in some Midwestern States until there are now 29 of these country-point auctions in operation, all except 2 of which are producer-owned. They operate in 11 States, from New Hampshire, Massachusetts, and Rhode Island in the East, to Illinois in the Middle West.

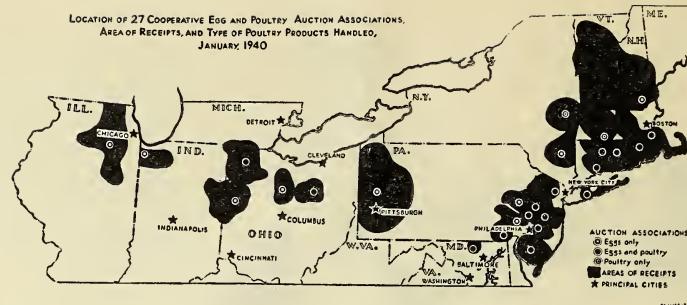
Of the 27 cooperative auctions, 16 sell both eggs and poultry, 9 sell only eggs, and 2 sell only poultry.

The total volume of eggs and poultry handled by the auctions also has shown a constant and rapid growth. In 1939, 1,200,000 cases of eggs and 250,000 crates of live poultry were sold at these auction associations. The sales value of these products was approximately 11 million dollars. More than 17,000 poultry producers utilized their facilities.

What is it the Auctions Have?

Auction associations are by no means the only type of egg and poultry cooperative operating in the Northeast. There are at least five other types which market eggs or poultry or both. None of the others, however, has shown the same expansion or vigorous growth. The question naturally arises: "Why have the auction associations proved so successful when other types of cooperatives have found the going relatively difficult?"

The simple and all-inclusive answer is that the auction associations were patterned to meet production and marketing conditions as they exist in the area in which they operate. Instead of copying types, pol-



icies, methods, and practices from other sections of the country, the sponsors of the auctions devised a specialized form of association. In so doing they simply recognized and followed the cardinal principle of a successful cooperative—that it must supply essential services which are desired by its members.

To be more specific, the cooperative auctions provide a type of marketing service which fits the patrons' needs and desires in at least four important ways.

The first of these is that the auction associations (with only one exception) do not require the member to deliver all of his market eggs or poultry to the cooperative. This is a departure from the policy of the Far West organizations in which a rather strict marketing agreement is the rule. The marketing agreements with the producer are considered necessary by the western associations as an assurance of volume to operate efficiently, to ship the products economically to eastern or other markets in large quantities, and to furnish their customers with adequate and constant supplies of products at all times. It is on this basis that the western associations have built their business and been able to serve their members well. The producers' marketing agreement is a part of their cooperative mechanism.

Producers farther east, however, live close to large consuming centers. They have many available buyers and markets and they do not need the same type of marketing service as the more distant producers. Many of the eastern and mid-western producers object to any compulsion to sell their product to only one outlet, cooperative or otherwise. The fact that the auctions insist on no such agreement therefore appeals to them.

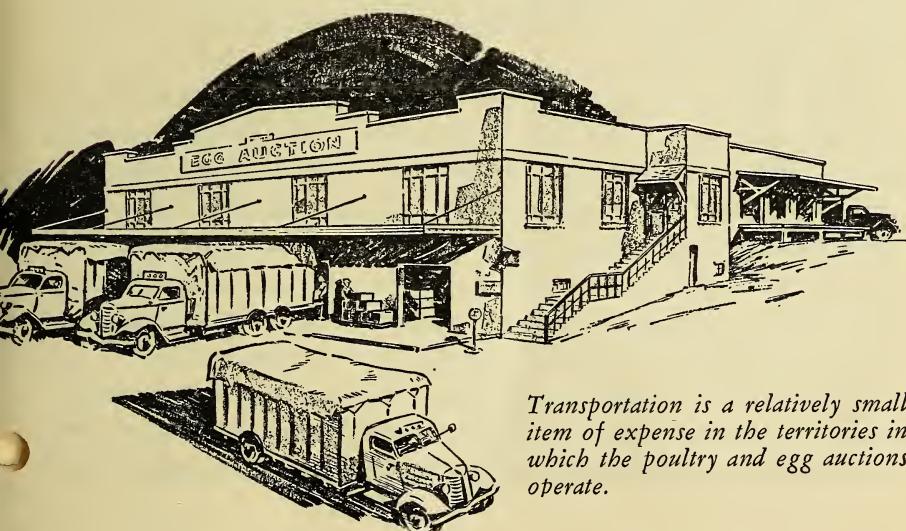
The second way, closely tied in with the first, is the objection by many producers to having their products pooled. With numerous buyers and with outlets many and close, quality is a virtue which has direct rewards.

Practically every producer has pride in his products, and probably feels that his commodities are above the average. He therefore likes to have them sold individually and separately.

In this respect the auction also meets with his approval. Each producer's eggs and poultry are sold separately and by grade, weight, and producer number to the highest bidder. There is practically no comingling or pooling of products in auction selling.

A third way in which the cooperative auctions fit local customs and conditions is that they permit price comparisons. Eastern producers, as has been said, insist on being free to "shop around." This means that they can and will make careful and first-hand comparisons of the prices received by themselves through the different outlets. The auction has to meet actual competition. It can meet this competition only by giving the producer equal or higher net returns—by selling his eggs and poultry effectively and by keeping costs low.

This leads to the fourth point in which auctions score in popularity—low costs and a minimum of services. A minimum of services means that producers are required to perform as many of the marketing functions themselves as possible. To do so means more work but higher net returns to them. Due to this policy of minimum service for minimum marketing cost, for 18 auctions in 1937 the average operating cost was 37.6 cents per case of eggs. This was 4.4 percent of the gross sales value. For other types of cooperative associations operating in the



Transportation is a relatively small item of expense in the territories in which the poultry and egg auctions operate.

same area the average cost was from 44.8 to 90.2 cents per case. This was from 5.4 to 9.8 percent of the gross sales value.

Auction selling is open, competitive selling. It tends to obtain all that the product is worth. It appeals especially to buyers who sell directly to the ultimate consumer, and it therefore can well net the producer locally more than the wholesale price of the produce delivered at the terminal market.

Auctions Can Be Started in a Small Way

Aside from fitting the producers' needs, another factor which has helped to speed the development of the auctions is that they can be started in a small way. They do not require the large volume that is necessary for success in the far western egg and poultry associations.

In order to obtain economical transportation from distant production areas carlot shipments are necessary. This means that in order to be effective and efficient, an association should not be too small. For the producers living closer to the points of consumption, however, large volume for economical transportation is not so important. Transportation there is a relatively small item of expense. It is so unimportant, in fact, that many of the buyers of nearby eggs anticipate bearing it either by paying for the hauling or by doing their own hauling. Consequently, the auctions may be successful even if very small in volume and local in area served, as long as their volume is sufficient to keep the per unit operating costs low.

None of the auctions at first operated over areas larger than an average county. None owned buildings or other costly facilities or equipment. The average original membership was only 44 producers. Such small associations were comparatively easy to organize, and their organization and operation did not create much antagonism or have exacting requirements. To have formed associations requiring a large number of producers, considerable capital, and operating from the beginning over a large area would have been much more difficult.

For a number of other reasons the auctions have been successful—though not successful in all instances. The first auction ceased to operate after about 9 months during which much valuable experience was



Most of the cooperative auctions sell both poultry and eggs; two are confined exclusively to poultry.

obtained to the benefit of the auctions following. Seven associations which attempted to sell by the auction method either ceased to operate in this way or now limit the auction selling to poultry and sell eggs on some other basis. These associations fortunately were set up on a flexible basis so that when auction selling did not work they quickly swung over to another and more suitable selling method.

Auctions Are Not the Universal Answer

Despite the splendid success of auction associations the fact should be emphasized that this type of association probably will operate successfully in only a small part of the country. As a matter of fact auctions do not fit all of the conditions in the areas in which they now operate, as is indicated by the associations which have changed from the auction plan, and also by the existence of various other types of cooperatives side-by-side with the auctions.

Among the other types is the pooling association, operating under producers' marketing agreements essentially the same as those in the west coast cooperatives. There also is the bargaining association in which the cooperative does not handle the eggs but merely negotiates prices. There is a commission type of cooperative which is similar in every respect to the auction type except that sales are not made over the auction block. There is the outright purchase cooperative, which ac-

tually buys the products from the producers and sells them, just as the private handlers do. Finally there is the sideline cooperative which simply handles poultry products incidental to its other products and services.

Each of these types of associations—as well as the auction type itself—emphasizes the need for setting up associations which will fit specific conditions. No two communities, sections, or areas are identical. Therefore the type of cooperative association which is set up probably should not be an exact duplicate of those operating elsewhere. This does not mean that other successful associations should not be copied as models and then tailored or adjusted to the conditions. On the contrary, it indicates that foundations of new cooperatives should be built upon the experience of others, but the finished structure closely fitted to the immediate situation and conditions.

This leaflet is condensed from Bulletin 37, "Cooperative Egg and Poultry Auction Associations," by John J. Scanlan, senior agricultural economist, and Roy W. Lennartson, associate agricultural economist. Copies of this bulletin, containing more detailed information, may be obtained, while available, from—

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